

**HOSPITAL SERVICE DISTRICT NO. 1 OF
EAST BATON ROUGE PARISH, LOUISIANA
D/B/A LANE MEMORIAL HOSPITAL**

Zachary, Louisiana

Audited Financial Statements

Years Ended June 30, 2002 and 2001

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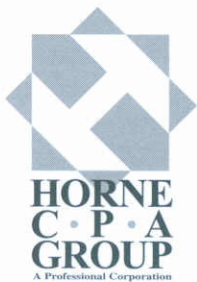
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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Memorial Hospital
Zachary, Louisiana

We have audited the accompanying balance sheets of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital (A Component Unit of the City-Parish of Baton Rouge), as of June 30, 2002 and 2001, and the related statements of operations, changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

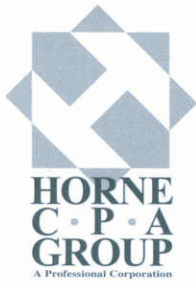
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital, as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2002, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this report in considering the results of our audits.

Horne CPA Group

Jackson, Mississippi
August 19, 2002



Members of the American Institute of Certified Public Accountants
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Memorial Hospital
Zachary, Louisiana

We have audited the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital (A Component Unit of the City-Parish of Baton Rouge), as of and for the year ended June 30, 2002, and have issued our report thereon dated August 19, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting.

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Commissioners, management of Lane Memorial Hospital, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Home CPA Group

Jackson, Mississippi
August 19, 2002

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL**
Balance Sheets
June 30, 2002 and 2001

ASSETS	2002	2001	LIABILITIES AND FUND BALANCE	2002	2001
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 1,028,237	\$ 1,126,027	Current maturities of long-term debt	\$ 983,647	\$ 958,647
Certificates of deposit	4,900,000	7,200,000	Accounts payable	951,010	1,275,969
Short-term investments	5,405,271	3,651,261	Accrued salaries and wages	554,305	442,621
Assets limited as to use	557,229	546,718	Accrued compensated absences	801,690	773,570
Patient accounts receivable, net of allowances for doubtful accounts of \$1,186,591 in 2002 and \$1,755,386 in 2001	6,042,990	6,970,596	Accrued payroll withholdings	371,063	294,739
Estimated third-party payor settlements	1,106,641	817,778	Other current liabilities	507,170	590,316
Inventories	526,383	541,322			
Other current assets	186,250	239,007			
Total Current Assets	19,753,001	21,092,709	Total Current Liabilities	4,168,885	4,335,862
Assets Limited as to Use			Long-term debt, less current maturities	8,736,629	9,720,275
Held by trustee in accordance with bond indentures	557,229	546,718			
Internally designated for future capital improvements	776,151	1,465,491	Total Liabilities	12,905,514	14,056,137
Total Assets Limited as to Use	1,333,380	2,012,209	Fund balance	37,730,376	37,077,663
Less amounts required to meet current liabilities	(557,229)	(546,718)			
Noncurrent Assets Limited as to Use	776,151	1,465,491			
Property and equipment, net	27,897,741	28,339,930			
Other Assets					
Certificates of deposit	1,250,000	-			
Deferred financing costs	59,742	69,762			
Long-term investments	301,978	-			
Other assets	597,277	165,908			
Total Other Assets	2,208,997	235,670			
Total Assets	\$ 50,635,890	\$ 51,133,800	Total Liabilities and Fund Balance	\$ 50,635,890	\$ 51,133,800

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
 Statements of Operations
 Years Ended June 30, 2002 and 2001

	2002	2001
Net patient service revenue	\$ 39,040,229	\$ 38,726,974
Other operating revenue	4,788,157	4,739,631
Total Operating Revenue	43,828,386	43,466,605
Operating Expenses		
Salaries	19,902,541	19,253,136
Fringe benefits	2,791,321	3,007,262
Nonmedical supplies	1,437,716	1,410,141
Medical supplies	5,075,373	5,001,897
Professional fees	739,024	1,959,902
Contracted services	3,961,521	3,128,404
Utilities	917,308	1,051,230
Repairs and maintenance	762,109	858,773
Insurance	795,547	494,231
Depreciation and amortization	2,244,409	2,174,855
Interest expense	452,502	439,231
Provision for doubtful accounts	3,101,117	3,107,791
Other	1,660,935	1,916,536
Total Operating Expenses	43,841,423	43,803,389
Deficiency of Operating Revenue Over Operating Expenses	(13,037)	(336,784)
Nonoperating Revenue (Expenses)		
Investment income	557,802	791,464
Other nonoperating revenue	232,087	238,421
Nonoperating expenses	(124,139)	(133,741)
Net Nonoperating Revenue	665,750	896,144
Excess of Revenue Over Expenses	\$ 652,713	\$ 559,360

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
 Statements of Changes in Fund Balance
 Years Ended June 30, 2002 and 2001

	2002	2001
Fund balance, beginning of year	\$ 37,077,663	\$ 36,518,303
Excess of revenue over expenses	<u>652,713</u>	<u>559,360</u>
Fund balance, end of year	<u><u>\$ 37,730,376</u></u>	<u><u>\$ 37,077,663</u></u>

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Statements of Cash Flows
Years Ended June 30, 2002 and 2001

	2002	2001		2002	2001
Cash Flows from Operating Activities			Cash Flows from Investing Activities		
Deficiency of operating revenue over operating expenses	\$ (13,037)	\$ (336,784)	Purchase of investments	\$ (301,978)	\$ (4,450,000)
Interest expense considered capital financing activity	452,502	439,231	Proceeds from redemption of certificates of deposit	1,050,000	-
Adjustments to reconcile excess deficiency of operating revenue over operating expenses to net cash provided by (used by) operating activities			Investment income	557,802	791,464
Depreciation and amortization	2,341,308	2,268,346	Other nonoperating revenues	232,087	238,421
Loss on disposals of property and equipment	16,546	47,196	Other nonoperating expenses	(124,139)	(133,741)
Provision for doubtful accounts	3,101,117	3,107,791			
Changes in operating assets and liabilities			Net Cash Provided by (Used by) Investing Activities	1,413,772	(3,553,856)
Patient accounts receivable	(2,173,511)	(4,249,163)			
Estimated third-party payor settlements	(288,863)	(1,917,887)	Increase (Decrease) in Cash and Cash Equivalents	977,391	(3,213,772)
Other assets	(431,369)	(160,907)			
Inventories	14,939	(61,221)	Cash and cash equivalents, beginning of year	6,789,497	10,003,269
Other current assets	52,757	46,327			
Accounts payable and other current payables	(408,105)	(357,854)	Cash and cash equivalents, end of year	\$ 7,766,888	\$ 6,789,497
Accrued expenses and payroll withholding payables	216,128	191,983			
			Reconciliation of Cash and Cash Equivalents to Balance Sheets		
Net Cash Provided by (Used by) Operating Activities	2,880,412	(982,942)	Cash	\$ 1,028,237	\$ 1,126,027
			Short-term investments	5,405,271	3,651,261
Cash Flows from Capital and Related Financing Activities			Cash and cash equivalents in assets limited as to use		
Acquisition of property and equipment	(1,905,645)	(2,063,560)	Held by trustee in accordance with bond indentures	557,229	546,718
Deferred financing costs	-	(7,894)	Internally designated for future capital improvements	776,151	1,465,491
Proceeds from long-term debt	-	4,500,000			
Principal paid on long-term debt	(958,646)	(656,078)	Total Cash and Cash Equivalents	\$ 7,766,888	\$ 6,789,497
Interest paid on long-term debt	(452,502)	(449,442)			
Net Cash (Used by) Provided by Capital and Related Financing Activities	(3,316,793)	1,323,026			

See accompanying notes.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001**

NOTES TO FINANCIAL STATEMENTS

**Note 1. Nature of Operations, Reporting Entity and Summary of
Significant Accounting Policies**

Nature of Operations

Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital (the Hospital), is a not-for-profit healthcare organization located in Zachary, Louisiana. The Hospital, which was created by the Metropolitan Council of the City of Baton Rouge and the Parish of East Baton Rouge (City-Parish) on June 12, 1957, under the provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, provides inpatient, outpatient, and emergency care services for residents of southern Louisiana and Mississippi.

The significant accounting policies used by the Hospital in preparing and presenting its financial statements are summarized as follows:

Financial Reporting Entity

Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity*, establishes criteria for determining the governmental reporting entity and component units that should be included within the reporting entity.

Since the City-Parish appoints all of the members of the Hospital's Board of Commissioners and has the ability to impose its will on that organization, the Hospital is considered to be a component unit of the City-Parish of Baton Rouge, the financial reporting entity. The accompanying financial statements, however, present information only on the funds maintained by the Hospital and do not present information on the City-Parish, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

Additionally, the Hospital does not have any components units, which are defined by GASB Statement No. 14 as other legally separate organizations for which the elected officials are financially accountable. There are no other primary governments with which the Hospital has a significant relationship.

Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Under the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America for proprietary fund types, substantially all revenues and expenses are subject to accrual.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514, to the guidance set forth in the *Louisiana Governmental Accounting Guide*, and to the industry audit guide, *Audits of Health Care Organizations*, published by the American Institute of Certified Public Accountants.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents includes all checking accounts, savings accounts, money market funds, certificates of deposit, and certain investments in highly liquid debt instruments with original maturities of three months or less, including amounts limited as to use by the Board of Commissioners. Certificates of deposit with original maturities of more than three months are presented separately in the accompanying balance sheets.

Investments and Investment Income

Investments in debt and equity securities are carried at fair value. Short-term investments consist primarily of mutual funds. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Commissioners for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts that are required for obligations classified as current liabilities are reported as current assets, with the balance reported as noncurrent assets.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Patient Accounts Receivable

Patients accounts receivable are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts and third-party contractual discounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible.

Inventories

Inventories, consisting primarily of medical supplies and drugs, are stated at the lower of cost (first-in, first-out) method or market.

Prepaid Expenses and Deferred Charges

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis. Deferred financing costs are amortized over the term of the related debt on the interest method.

Property and Equipment

Property and equipment are stated at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the life of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 40 years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized in the Hospital's yearly operations.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Financing costs are amortized over the period that the related obligation is outstanding using the interest method.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001**

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Compensated Absences

Hospital policy is to compensate employees for absences due to earned vacation and sick leave. Accumulated vacation and sick pay are accrued at the balance sheet date because they are payable upon termination of employment.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The primary third-party programs include Medicare and Medicaid, which account for a significant amount of the Hospital's revenue. The laws and regulations under which Medicare and Medicaid programs operate are complex, and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Hospital's compliance with these laws and regulations. Such review may result in adjustments to program reimbursement previously received and subject the Hospital to fines and penalties. Although no assurance can be given, management believes it has complied with the requirements of these programs.

Charity Care

The Hospital provides medical care to patients who meet certain criteria established under its charity care policy without charge or at rates substantially lower than its prevailing rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employees injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage during the past several years. The Hospital is self-insured for employee health and dental benefits.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Income Taxes

For income tax purpose, the Hospital is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes on related income has been included in the financial statements.

Reclassifications

Certain reclassifications have been made to the 2001 financial statements to conform with the 2002 presentation.

Note 2. Net Patient Service Revenue and Accounts Receivable

The Hospital has agreements with governmental and other third-party payors that provide for payments to the Hospital at amounts different from its established rates. Patient revenue is reported net of contractual adjustments arising from these third-party arrangements. Contractual adjustments under third-party reimbursement programs represent the differences between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with third-party payors follows:

Medicare

Inpatient acute care services and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or occurrence. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain types of exempt inpatient services and outpatient services related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per diem that includes capital costs. Certain types of outpatient services are paid based upon a cost reimbursement methodology. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and an audit thereof by the Medicaid fiscal intermediary.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

The Hospital has also entered into agreements with certain other commercial insurance carriers and preferred provider organizations. Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Amounts receivable or payable under reimbursement agreements with the Medicare and Medicaid programs are subject to examination and retroactive adjustments. Provisions for estimated retroactive adjustments under such programs are provided for in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Note 3. Deposits and Investments

The Hospital has various deposits and investments. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1 - Insured or registered, or securities held by the Hospital or its agent in the Hospital's name.
- Category 2 - Uninsured and unregistered with securities held by the counterparty's trust department or agent in the Hospital's name.
- Category 3 - Uninsured and unregistered, with securities held by counterparty, or by its trust department or agent, but not in the Hospital's name.

At June 30, 2002 and 2001, the fair value and risk categories of the Hospital's deposits and investments was as follows:

	2002	2001	Risk Category
Petty cash	\$ 2,700	\$ 2,700	1
Demand deposit and money market accounts	1,608,917	1,685,536	1
Certificates of deposit	6,900,000	8,650,000	1
Mutual Funds - U. S. Government Securities	4,187,733	2,464,382	N/A
Louisiana asset management pool	1,217,538	1,186,879	N/A
U. S. Government Agency Security	301,978	-	1
Total	<u>\$ 14,218,866</u>	<u>\$ 13,989,497</u>	

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

The amounts above are reflected on the accompanying balance sheets as follows:

	2002	2001
Cash and cash equivalents	\$ 1,028,237	\$ 1,126,027
Certificates of deposit	6,150,000	7,200,000
Short-term investments	5,405,271	3,651,261
Long-term investments	301,978	-
Assets limited as to use	1,333,380	2,012,209
	<hr/>	<hr/>
Total	\$ 14,218,866	\$ 13,989,497

Under state law, these deposits must be secured by either Federal deposit insurance or by the pledge of securities owned by a fiscal agent bank. The market value of the pledged securities plus the Federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent bank. At June 30, 2002, the Hospital had \$7,520,774 in deposits (collected bank balances). Of these bank balances, \$200,000 was covered by Federal depository insurance, and the remainder was secured by collateral held by the fiscal agent bank in the name of the Hospital (GASB category 2).

Under Louisiana Revised Statutes 39:1271 and 33:2955, the Hospital may deposit funds in demand deposit accounts, interest-bearing demand deposit accounts, money market accounts, and time certificates of deposit with state banks organized under Louisiana law and national banks having principal offices in Louisiana. Additionally, Louisiana statutes allow the Hospital to invest in direct obligations of the U.S. Government, federally insured instruments, guaranteed investment contracts issued by certain financial institutions, and mutual or trust funds registered with the Securities and Exchange Commission.

Note 4. Property and Equipment

Net property and equipment at June 30, 2002 and 2001, consisted of the following:

	2002	2001
Land and land improvements	\$ 1,618,307	\$ 1,569,045
Buildings	26,204,289	25,867,158
Fixed equipment	3,715,912	3,715,912
Movable and other equipment	18,037,555	16,859,724
Physicians' office buildings and equipment	3,090,509	3,027,438
	<hr/>	<hr/>
	52,666,572	51,039,277
Less accumulated depreciation	(24,768,831)	(22,699,347)
	<hr/>	<hr/>
Property and Equipment, Net	\$ 27,897,741	\$ 28,339,930

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

Depreciation expense amounted to \$2,331,288 and \$2,263,329 during the years ended June 30, 2002 and 2001, respectively. These amounts include non-operating depreciation expense of \$96,899 and \$93,491 for the years ended June 30, 2002 and 2001, respectively and is included in non-operating expense on the accompanying statement of operations.

Note 5. Long-Term Debt

A summary of long-term debt at June 30, 2002 and 2001, was as follows:

	2002	2001
Hospital Revenue and Refunding Bonds (Series 1996), interest rates ranging from 4.75 percent to 5.60 percent, due in varying semi-annual installments through February 1, 2011, secured by the operating revenues of the Hospital and additional property as defined in the trust indenture	\$ 5,860,000	\$ 6,360,000
Hospital Revenue and Refunding Bonds (Series 2000), variable interest rates, due in monthly installments through November 20, 2010, secured by operating revenues and property of the Hospital as defined in the trust indenture	2,885,714	3,228,571
Hospital Revenue and Refunding Bonds (Series 2001), variable interest rates, due in monthly installments through November 20, 2010, secured by operating revenues and property of the Hospital as defined in the trust indenture	974,562	1,090,351
Total Long-Term Debt	9,720,276	10,678,922
Less current maturities	(983,647)	(958,647)
Long-Term Debt, Net of Current Maturities	\$ 8,736,629	\$ 9,720,275

The amortization expenses related to deferred financing costs totaled \$10,020 and \$5,017 during the years ended June 30, 2002 and 2001, respectively.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

The outstanding bonds are scheduled to mature as follows:

Year Ending June 30,	Amount
2003	\$ 983,647
2004	1,008,647
2005	1,043,647
2006	1,073,647
2007	1,103,647
Thereafter	4,507,041
Total Long-Term Debt	<u>\$ 9,720,276</u>

As part of the Bond agreement, the Hospital has agreed to comply with various covenants. The covenants consist primarily of reporting and audit requirements, insurance coverage, restrictions on additional debt, maintenance of various deposit accounts, and other administrative requirements. The Hospital was in compliance with all of the applicable covenants at June 30, 2002.

Effective June 1, 2002 the Hospital refinanced the 1996 Series Bonds converting from a fixed rate to a variable rate equal to 65 percent of LIBOR, plus 1.6 percent. The rate adjusts monthly and includes a cap of 10 percent.

Note 6. Insurance Programs

The Hospital has a self-insured retention of \$100,000 per claim for its coverage of professional liability; additional coverage is provided by the Louisiana Patient's Compensation Fund for the next \$400,000 of professional liability up to the present statutory maximum of \$500,000 per claim (exclusive of additional amounts for future medical expense provided by law).

The Hospital also has a \$100,000 self-insurance retention for its coverage of general liability with a limit of \$1,000,000 per occurrence and with no annual aggregate. An additional umbrella excess general liability policy provides additional excess coverage of \$9,000,000 per occurrence and \$9,000,000 per annual aggregate.

The Hospital is also self-insured for medical, dental, and workers' compensation claims up to predetermined stop-loss amounts. Claims in excess of the stop-loss amounts are insured through commercial insurance carriers. The Hospital has reflected its estimate of the ultimate liability for known and incurred but not reported claims in the accompanying financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

The claims liabilities at June 30, 2002 and 2001 are based on the requirements of GASB Statement No. 10. This Statement provides that liability for claims be reported if information prior to the issuance of the final statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount during the past two years is reflected below:

	2002	2001
Claims liability, beginning of year	\$ 398,879	\$ 355,410
Current year claims and changes in estimates	1,452,990	1,668,684
Current year claims payments	(1,601,869)	(1,625,215)
Claims liability, end of year	<u>\$ 250,000</u>	<u>\$ 398,879</u>

Note 7. Pension Plan

The Hospital sponsors the Lane Memorial Hospital Retirement Plan (the Plan), a contributory defined benefit pension plan, in an attempt to provide retirement and death and disability benefits to substantially all of its employees.

Plan Description

All employees who have at least 2 years of continuous service and have worked an average of 20 or more hours a week are eligible to join the Plan on its next anniversary date. Employees who retire at or after the age of 62 are entitled to a retirement benefit, payable monthly for life, equal to 1.5 percent of their monthly earnings for the highest 3 anniversary dates preceding retirement or termination for each year of creditable service. Plan benefits vest on a graded scale beginning at 25 percent for 5 years of service and increasing 5 percent per annum for each of the next 5 years and 10 percent per annum for each of the following 5 years.

Employees leaving employment after 5 years of creditable service but before attaining retirement age are entitled to benefits upon reaching retirement age equal to their accrued benefits upon termination of employment. The Plan also provides death and disability benefits.

The Plan issues an annual publicly available financial report that includes financial statements and required supplementary information, including 10-year historical trend information. The report may be obtained by writing to Lane Memorial Hospital, 6300 Main Street, Zachary, Louisiana 70791, or by calling (225) 658-4000.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

Funding Policy

Employees are required to contribute 1 percent of their monthly earnings up to \$400 plus 2 percent of their monthly earnings in excess of \$400. The Hospital is required to contribute the actuarially determined amounts necessary to fund normal costs plus an additional amount necessary to amortize unfunded past service costs over a 20-year period (from the date that the past service cost was first recognized). The Hospital, however, is not allowed to contribute more than the amount necessary to achieve a ratio of "actuarial value of assets" to the "present value of accrued benefits" of 150 percent determined as of the beginning of the Plan year. No contributions were made during the years ended June 30, 2002, 2001, or 2000.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

Funding Status

The amount shown below as a pension benefit obligation was determined as part of an actuarial valuation in December 2001 for the plan year ending June 30, 2002, as a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employees service-to-date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons with other plans. The measure is independent of the actuarial funding methods used to determine contributions to the Plan.

Assumptions used in accounting for the net periodic pension cost as of June 30, 2002, 2001, and 2000, were as follows:

	2002	2001	2000
Discount rates	8%	8.00%	8.00%
Rates of increase in compensation levels	4%	4.00%	4.00%
Expected long-term rate of return on assets	8%	8.00%	8.00%

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

Based on the latest actuarial valuation in December 2001, the following tables set forth the Plan's funded status as of June 30, 2002, 2001, and 2000:

	2002	2001	2000
Actuarial value of plan assets	\$ 13,521,947	\$ 13,652,959	\$ 12,931,694
Actuarial accrued liability	12,867,783	\$ 12,899,424	\$ 12,144,395
Funded excess	654,164	\$ 753,535	\$ 787,299
Funded ratio	105.08%	105.84%	106.48%
Annual covered payroll	10,534,152	\$ 10,637,475	\$ 9,745,773
Funded excess as a percentage of annual covered payroll	6.21%	7.08%	8.08%

The Hospital had no annual required contribution, annual pension cost or net pension obligation at June 30, 2002, 2001, or 2000, as calculated under GASB 27 "Accounting for Pensions by State and Local Governmental Employers."

Plan assets consist principally of cash equivalents, equity securities, and fixed income funds.

During 2002, the Board approved an amendment to freeze the Plan with respect to new employees hired on or after July 1, 2002. Benefits will continue to accrue for all participants or potential participants employed as of June 30, 2002. The Board also approved to amend the current vesting schedule to provide for full vesting at five years as well as to fully vest employees who may be included in any reduction in workforce.

Note 8. Business and Credit Concentrations

Financial instruments which potentially subject the Hospital to concentrations of credit risk consist principally of unsecured accounts receivable.

The Hospital grants credit to patients, substantially all of whom are local residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross and commercial insurance policies).

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

The mix of receivables from patients and third-party payors at June 30, 2002 and 2001, was as follows:

	2002	2001
Medicare	35%	24%
Medicaid	8	7
Commercial insurance companies and health maintenance organizations	39	47
Self-pay patients and other	18	22
	<u>100%</u>	<u>100%</u>

The mix of revenues by significant payor category (based on gross charges) is as follows:

	2002	2001
Medicare	54%	51%
Medicaid	13	13
Commercial insurance companies and health maintenance organizations	29	33
Self-pay patients and other	4	3
	<u>100%</u>	<u>100%</u>

Note 9. Other Operating Revenues

Other operating revenues recognized during the years ended June 30, 2002 and 2001, consisted of the following:

	2002	2001
Satellite revenues	\$ 4,224,911	\$ 4,058,797
Cafeteria revenues	295,340	331,311
Physician services	143,957	135,347
Other	124,486	214,176
Total Other Operating Revenues	<u>\$ 4,788,694</u>	<u>\$ 4,739,631</u>

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Years Ended June 30, 2002 and 2001**

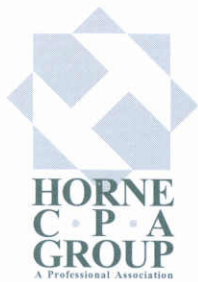
NOTES TO FINANCIAL STATEMENTS

Note 10. Commitments and Contingencies

The Hospital is involved in various legal actions and claims that arose as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Hospital. Accordingly, no provision has been made in the financial statements related to these claims.

Note 11. Pronouncements Issued Not Yet Adopted

GASB (Government Accounting Standards Board) Standard 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," is initially phased in for fiscal years beginning after June 15, 2001. Based upon its revenues, the Hospital will be required to implement GASB 34 in the period beginning after June 15, 2002 (fiscal year ending June 30, 2003). Hospitals are identified in GASB 34 as special purpose governments required only to implement applicable portions of the statement. The pronouncement will require that the Hospital's financial statements be introduced by a narrative prepared by Management, called "Management's Discussion and Analysis" (known as MD&A), as well as additional disclosures and presentation of the statement of cash flow using the direct method. MD&A will present an analytical overview of the Hospital's financial activities and will include selected required supplementary information.



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Memorial Hospital
Zachary, Louisiana

Our independent auditor's report on the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Memorial Hospital, as of and for the years ended June 30, 2002 and 2001, appears on pages 1 and 2. Our audits were made for the purpose of forming an opinion on the financial statements as a whole. The required supplemental schedule contained on page 23, which is also the responsibility of the Hospital's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Jackson, Mississippi
August 19, 2002

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE MEMORIAL HOSPITAL
Schedules of Board of Commissioners and Salaries
Years Ended June 30, 2002 and 2001

	2002	2001
Hubert C. Owens, M.D.	\$ 300	\$ 275
Nick Adams	300	275
Jerry Broudreux	275	250
Etta Kay Hearn	250	275
Catherine Pourciau	300	250
Robert Williams, Jr.	250	300
Steve Stein	275	300
Judy Myles	50	-
John V. Richey, M.D.	50	-
	<hr/> \$ 2,050	<hr/> \$ 1,925